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July 11, 2018

**VIA ELECTRONIC FILING**

Jocelyn G. Boyd, Esquire  
 Chief Clerk & Administrator  
 Public Service Commission of South Carolina  
 101 Executive Center Drive, Suite 100  
 Columbia, South Carolina 29210

RE: Application of Duke Energy Progress, LLC for an Accounting Order to Defer  
 Certain Capital and Operating Expenses

**Docket No. 2018-205-E**

Dear Ms. Boyd:

By this letter, the South Carolina Office of Regulatory Staff ("ORS") hereby notifies the Public Service Commission of South Carolina ("Commission") that ORS has reviewed and does not oppose the Petition of Duke Energy Progress, LLC ("DEP" or "the Company") requesting approval for an accounting order to defer certain capital and operating expenses pursuant to S.C. Code §58-27-1540 and S.C. Code Reg. 103-825.

The Company requests an accounting order for regulatory and financial accounting purposes authorizing the Company to defer in a regulatory asset certain incremental costs that have been or are being incurred by the Company since January 1, 2018. The Company seeks to defer the following items:

- 1) Incremental operations and maintenance ("O&M") expense and depreciation expense associated with AMI and carrying cost on the investment/deferred costs at its weighted average cost of capital ("WACC");
- 2) Incremental O&M expenses associated with the deployment of Customer Connect and carrying costs on the deferred costs at its WACC; and
- 3) Incremental depreciation expense resulting from the new depreciation study filed in Docket No. 2018-204-E.

In addition, DEP requests:

- 1) Approval to continue to depreciate the remaining net book value of the outdated meters that will be replaced by AMI; and
- 2) Approval to continue to amortize the expense approved in the Order 2016-871 associated with the NC excess deferred income taxes (“NC EDIT”) which is scheduled to expire on December 31, 2018.

The Company estimates the deferred costs related to AMI, Customer Connect and depreciation expense will total more than \$31.9 million by mid-2019. The Company’s accounting records of the deferred costs will be based on actual costs not estimates. In addition, the Company indicates the net book value of the non-AMI meters to be \$6.1 million. The Company’s request to continue to credit the NC EDIT through June 30, 2019, would increase the regulatory asset by \$1 million.

The Company states in its request that without the accounting treatment the costs of AMI, Customer Connect and depreciation expense will continue to negatively impact the Company’s financials and the effects could impair the financial stability and ability to attract capital. ORS’s position does not support or validate the Company’s assertion that absent the accounting treatment requested the Company would experience financial impairment. Likewise, ORS’s position on the accounting treatment request does not support, validate or guarantee future recovery of the Company’s deferral of carrying costs at its WACC on its investments.

The Company’s request will not involve a change to any retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. ORS’s position is predicated on the basis that the issuance of an Accounting Order in this matter will not preclude the ORS, Commission, or any other party, from addressing the reasonableness of these costs including the carrying costs in a subsequent general rate case or other proceeding.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Jeffrey M. Nelson

cc: Joseph Melchers, Esquire (via E-mail)